

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

OFFICE OF THE GOVERNOR AND
LIEUTENANT GOVERNOR

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

This report contains recommendations for
improving state compliance and management
controls. These recommendations include:

- Reimbursing the General Fund for indirect
costs incurred by grant supported programs.
- Recording contracted and personal services
in proper expenditure classifications on SBAS.
- Improving cash controls over centennial sales.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Office of the Legislative Auditor

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

March 1987

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

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PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 1986. Included in this report are recommendations concerning indirect cost reimbursements, expenditure classifications, and centennial cash controls. The responses of the office are contained at the end of the report.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

OFFICE OF THE GOVERNOR AND
LIEUTENANT GOVERNOR

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

Members of the audit staff involved in this audit were: Laurie Evans, John Fine, Bill Hansas, Wayne Kedish, Maureen Lassey, and Vickie Rauser.

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ELECTED AND ADMINISTRATIVE OFFICIALS

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR

Ted Schwinden	Governor
George Turman	Lieutenant Governor
Teresa Olcott Cohea	Executive Assistant

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u>	
The office recover indirect costs of federally supported programs in accordance with state law.	4
Agency Response: Concur. See page 21.	
<u>Recommendation #2</u>	
The office adopt cash management procedures to eliminate negative cash balances for federal grants.	5
Agency Response: Concur. See page 21.	
<u>Recommendation #3</u>	
The office correct negative accounting entity cash balances as required by state law.	5
Agency Response: Concur. See page 21.	
<u>Recommendation #4</u>	
The office ensure cash control procedures in use comply with state policy.	6
Agency Response: Concur. See page 22.	
<u>Recommendation #5</u>	
The office:	
A. Comply with state personnel laws.	7
Agency Response: Concur. See page 22.	
B. Classify personal services and contracted services in accordance with state law.	7
Agency Response: Concur. See page 22.	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #6

The office use non-General Fund moneys wherever possible before using General Fund moneys.

8

Agency Response: Concur. See page 22.

Recommendation #7

The office record centennial in-kind contributions on its accounting records.

9

Agency Response: Concur. See page 22.

Recommendation #8

The office:

- A. Implement controls to ensure equipment is properly recorded in its accounting records.

10

Agency Response: Concur. See page 22.

- B. Implement a physical inventory plan in accordance with state policy.

10

Agency Response: Concur. See page 22.

- C. Ensure each equipment item valued over \$200 is assigned a unique property tag.

10

Agency Response: Concur. See page 22.

INTRODUCTION

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (the office) for the two fiscal years ended June 30, 1986. The objectives of the audit were to:

1. determine if the financial schedules present fairly the office's results of operations for the two fiscal years ended June 30, 1986;
2. determine if the office complied with applicable laws and regulations; and
3. make recommendations for improvement in the management and internal controls of the office.

The eight recommendations in this report address areas where the office can improve management, internal controls, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the office's programs have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

BACKGROUND

The Governor's Office was created upon admission of Montana into the Union in 1889 and is provided for in Article VI of the Montana Constitution.

The following paragraphs discuss the functions of the various programs administered by the Office of the Governor and Lieutenant Governor. The office had 61.33 full-time equivalents budgeted for fiscal year 1986-87.

Executive Office - oversees and directs the activities of the executive branch agencies to ensure responsible and responsive government for the people of Montana.

Lieutenant Governor - performs those duties prescribed by law and those delegated to him by the Governor. The Lieutenant

Governor's Office coordinates the state centennial program and also administers the state clearinghouse for federal communications.

Office of Budget and Program Planning (OBPP) - assists the Governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and examines methods for improving delivery of services to the citizens of the state of Montana.

Citizens' Advocate Office - receives and seeks resolution of complaints, problems, and inquiries from Montana citizens regarding state government.

Mental Disabilities Board of Visitors - acts as an advocate for patients' rights, care, and treatment within Montana's institutions for the developmentally disabled and mentally ill and the community mental health centers.

Northwest Power Planning Council - continues development of a 20-year electric energy plan that will provide an efficient and adequate electric power supply for consumers in the Pacific Northwest and encourage conservation and development of natural resources. The council also directs fish and wildlife restoration in the Columbia River Basin and reviews actions taken by the Bonneville Power Administration. The Power Planning Council, created in accordance with Public Law 96-501, passed by the U.S. Congress on December 5, 1980, consists of two members from each of the states of Montana, Washington, Idaho, and Oregon.

Mansion Maintenance - maintains the Governor's official residence and provides security coverage for the Governor and his family.

Air Transportation - provides transportation for the Governor and his staff.

PRIOR AUDIT RECOMMENDATIONS

In our last audit, we made 17 individual recommendations to the office. Of those recommendations four have been implemented, four have been partially implemented, seven have not been

implemented, and two are no longer applicable. Three recommendations dealing with data processing operations at the Office of Budget and Program Planning (OBPP) have been partially implemented. From our discussion with office personnel, we determined that some improvements were made. According to budget office personnel, preparation for two special sessions left less time to make improvements. These data processing areas are not mentioned in this report. The recommendation concerning property, plant, and equipment (page 9) was discussed in our previous report.

INDIRECT COST RECOVERY

The office did not charge indirect costs to federal programs during the audit period. Section 17-3-111, MCA, requires that each agency negotiate agreements with the federal government to recover, to the fullest extent possible, indirect costs of administering federal grants.

According to agency personnel, accounting duties were reassigned in fiscal year 1984-85. The Central Services Division, Department of Administration, now performs the payroll function and prepares claims and deposits for the office. The Northwest Power Planning Council, the major federally funded program, approves its own claims and prepares its own budget. Because the council assumed these overhead activities, council management in Montana refused to pay indirect costs at the previously approved rate. The office did not submit a revised cost rate to the council. Therefore, the council did not have the opportunity to accept a revised rate based on reassigned overhead. The office is required by law to negotiate for recovery of indirect costs to the fullest extent possible. Using the previous indirect cost rate of 7 percent of personal services expenditures, estimated grant revenue of \$13,530 and \$16,628 was lost to the General Fund in fiscal years 1984-85 and 1985-86, respectively.

RECOMMENDATION #1

WE RECOMMEND THE OFFICE RECOVER INDIRECT COSTS OF FEDERALLY SUPPORTED PROGRAMS IN ACCORDANCE WITH STATE LAW.

MANAGEMENT OF GRANT CASH

The office recorded all federal and private grants in the same accounting entity during the audit period. During our audit we noted the following conditions:

1. The Department of Education Client Assistance Program (CAP) grant was frequently in a negative cash situation during the audit period. The office used several inter-entity loans as well as cash from other grants in the accounting entity to meet expenses billed under this grant.
2. The Northwest Power Planning Council (the council) cash balance was consistently negative during fiscal year 1985-86. Funds from other grants in the accounting entity covered council expenditures during periods when the cash balance was negative.

State law requires agencies to expend non-General Fund moneys before General Fund dollars are spent. Neither the Client Assistance Program nor the council funding arrangements place any limits on the number of drawdowns permitted. However, the contractor performing Client Assistance Program work bills the office infrequently and usually needs payment quickly, according to agency personnel.

We calculated the cost to the state in lost interest of negative cash balances for the Client Assistance Program, using the Treasurer's Fund rate, as \$103, \$20, and \$337 in fiscal years 1984-85, 1985-86, and the first four months of 1986-87, respectively. We estimated negative cash balance for the council cost the state \$858 in fiscal year 1985-86.

RECOMMENDATION #2

WE RECOMMEND THE OFFICE ADOPT CASH MANAGEMENT PROCEDURES TO ELIMINATE NEGATIVE CASH BALANCES FOR FEDERAL GRANTS.

NEGATIVE CASH BALANCE

In the 1985 Legislative Session, the legislature placed responsibility for allocating and collecting the costs of the statewide audit in the Office of Budget and Program Planning (OBPP). In fiscal year 1985-86, OBPP billed state agencies issuing bonds. Several agencies refused to pay their statewide audit charges, claiming the allocation method to be unfair. The Governor's Office accrued revenue and recorded receivables for these charges at June 30, 1986. The office revised the audit charge schedule in November 1986.

When the office paid a bill for statewide audit services in October 1986, the payment resulted in a negative cash balance of \$31,564 in the internal service fund accounting entity. Section 17-2-107(6a), MCA, prohibits negative accounting entity cash balances for more than seven working days. As of December 31, 1986, the negative balance had not been corrected.

RECOMMENDATION #3

WE RECOMMEND THE OFFICE CORRECT NEGATIVE ACCOUNTING ENTITY CASH BALANCES AS REQUIRED BY STATE LAW.

CASH CONTROLS

During our audit we noted the following weaknesses in controls over cash.

1. Some checks were not restrictively endorsed when first received by agency personnel.
2. Checks not deposited each day were kept in an open basket on an employee's desk.

We also documented an instance where a federal warrant for \$8,957 received in December 1982 was found by the office and deposited in February 1986. As a result, the state lost an estimated \$3,026 in interest over the 38 months the warrant was misplaced.

Montana Operations Manual (MOM) section 12-1210.21 requires restrictive endorsement of all checks immediately upon receipt. MOM section 12-1210.22 directs each agency to deposit at least weekly but to deposit daily when receipts exceed \$500.

Office officials said the office receives checks due to other agencies. Members of the public sometimes route money through the office when unsure of where to send it. For these reasons, the office does not endorse all checks immediately upon receipt. We determined the receipt of misdirected funds was not significant in dollars or number of transactions. The presence of misdirected checks does not negate the responsibility to restrictively endorse all checks belonging to the state.

RECOMMENDATION #4

WE RECOMMEND THE OFFICE ENSURE CASH CONTROL PROCEDURES IN USE COMPLY WITH STATE POLICY.

CONTRACTED SERVICES

The Northwest Power Planning Council (the council) hired an individual under two contracts for personal services covering the period from October 15, 1984, to March 15, 1985. Prior to these contracts, the individual worked for the council as an intern under an agreement with the University of Montana. On March 18, 1985, the individual became an employee of the council.

In section 39-71-120, MCA, state law defines an independent contractor as "one who renders service in the course of an occupation and:

- (1) has been and will continue to be free from control or direction over the performance of the services both under the contract and in fact; and
- (2) is engaged in an independently established trade, occupation, profession, or business."

The service contract with the council required the individual provide, as requested, direct staff support services and assist council members in developing public information. The contract did not specify projects to be performed and completed under the contract. The individual hired by the council does not satisfy the legal definition of an independent contractor. During the contract period, the individual was under direct supervision of council personnel. In substance, the individual was an employee of the state during the contract period. As a result, the individual was employed by the state without holding either a classified or exempt position under 2-18-201, MCA. The council incurred \$10,428 of operating expenditures under the contract which were actually personal services expenditures.

Agency personnel said the council had several vacant positions, but the workload requirements did not fit the positions. Classification procedures took longer than anticipated, so the council contracted for the services until the position could be classified, advertised, and filled.

RECOMMENDATION #5

WE RECOMMEND THE OFFICE:

- A. COMPLY WITH STATE PERSONNEL LAWS.
- B. CLASSIFY PERSONAL SERVICES AND CONTRACTED SERVICES IN ACCORDANCE WITH STATE LAW.

NON-GENERAL FUND MONEY

As of June 30, 1986, the office charged \$2,402 in audit costs to a General Fund continuing audit appropriation and no costs to the Special Revenue Fund audit appropriation. State law requires

the office to use non-General Fund moneys wherever possible before using General Fund moneys.

Office personnel agreed that the Special Revenue Fund appropriation should have been charged, but said that actual costs should be prorated between the two audit appropriations.

RECOMMENDATION #6

WE RECOMMEND THE OFFICE USE NON-GENERAL FUND MONEYS WHEREVER POSSIBLE BEFORE USING GENERAL FUND MONEYS.

ACCOUNTING ISSUES

Section 17-1-102, MCA, requires state agencies to input, before the close of the fiscal year, all transactions necessary to show receipt, use, and disposition of public money in accordance with generally accepted accounting principles. The three situations discussed below are cases where accounting procedures applied by the office did not comply with state law.

Centennial Donations

An individual gave 500 territorial and 550 old state warrants to the centennial program. The warrants, appraised at \$7,750, will be sold at \$15 each to raise money for centennial activities. The office did not record inventory and reserve for inventory for the appraised value on its accounting records.

Another donor loaned \$3,675 worth of office furniture for the centennial office. The furniture, available through summer 1989, does not belong to the office. The office did not record the assets on its accounting records as property held in trust.

Although accounting personnel prepared a memorandum on recording donations and centennial program personnel prepared a list of donations, the list was not submitted for input onto the office's accounting records.

RECOMMENDATION #7

WE RECOMMEND THE OFFICE RECORD CENTENNIAL IN-KIND CONTRIBUTIONS ON ITS ACCOUNTING RECORDS.

Unrecorded Property

MOM section 2-1700.30 requires state agencies to account for all state-owned property, plant, and equipment with a value over \$200 and a useful life greater than one year on the Property Accountability and Management System (PAMS) or a system approved by the Department of Administration.

The office did not record any equipment purchased during the audit period on its PAMS inventory records. Statewide Budgeting and Accounting System records show that the office expended \$77,065 and \$41,109 for equipment in fiscal years 1984-85 and 1985-86, respectively. State policy only requires the office to record equipment items that cost \$200 or more. If all equipment expenditures were for items costing at least \$200, the June 30, 1986, equipment balance of \$466,289 would be understated by \$128,174 or 27.5 percent.

State policy also requires each agency to establish an inventory plan and to perform a physical inspection of all fixed assets. Each equipment item valued over \$200 is to be assigned a unique property tag number and have the tag affixed to it. The office last performed a physical inventory in August 1983. According to office officials, the office did not have sufficient personnel to perform a physical inventory since that time or maintain current property records during the last two fiscal years. None of the equipment purchased in the past two years has been tagged.

Our past two audits recommended that the office implement an inventory plan in accordance with state policy and update inventory when items are purchased.

RECOMMENDATION #8

WE RECOMMEND THE OFFICE:

- A. IMPLEMENT CONTROLS TO ENSURE EQUIPMENT IS PROPERLY RECORDED IN ITS ACCOUNTING RECORDS.
- B. IMPLEMENT A PHYSICAL INVENTORY PLAN IN ACCORDANCE WITH STATE POLICY.
- C. ENSURE EACH EQUIPMENT ITEM VALUED OVER \$200 IS ASSIGNED A UNIQUE PROPERTY TAG.

TELEPHONE USE

During our review of collection report documents, we noted reimbursement by individual employees for personal long distance calls made on state telephones. Although it is not part of a formal policy, the office uses a self-regulating repayment procedure. Each employee receives a report of long distance calls from his/her phone for the month. The employees mark those calls which are personal rather than business related and remit repayment to office accounting personnel.

State law specifies that state employees may not use state time, facilities, or equipment for private business purposes. MOM section 1-1103.01 limits state telephone use to business purposes only. In our limited scope performance audit of state telephone use, we recommended that the Department of Administration establish and clarify policies and procedures that address the use of the state telephone system for personal long distance phone calls. Therefore, we make no further recommendations to the office in this report.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments for errors noted during the audit.

The unqualified opinion on the financial schedules presented means that the schedules are fairly stated in all material respects and that the user can rely on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

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HELENA, MONTANA 59620
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DEPUTY LEGISLATIVE AUDITORS:

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FINANCIAL-COMPLIANCE AUDITS

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PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Office of the Governor and Lieutenant Governor as of and for each of the two fiscal years ended June 30, 1985 and 1986, as shown on pages 12 through 20. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly the results of operations and changes in fund balances of the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 1985 and 1986 in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 19, 1986

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Funds</u>
FUND BALANCE: July 1, 1984	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
ADDITIONS			
<u>Fiscal Year 1984-85</u>			
Budgeted Revenue & Transfers In	1,972	447,152	
Support From State of Montana	2,373,575		
<u>Fiscal Year 1985-86</u>			
Budgeted Revenue & Transfers In	184	568,062	
Support From State of Montana	2,217,201		
Prior Year Revenue Adjustments		632	
Nonbudgeted Revenue & Transfers In			132,330
Total Additions	<u>4,592,932</u>	<u>1,015,846</u>	<u>132,330</u>
REDUCTIONS			
<u>Fiscal Year 1984-85</u>			
Budgeted Expenditures & Transfers Out	2,371,837	448,421	
Prior Year Expenditure Adjustments	3,710	(1,269)	
<u>Fiscal Year 1985-86</u>			
Budgeted Expenditures & Transfers Out	2,229,949	567,875	73,750
Prior Year Expenditures	(2,737)		
Prior Year Expenditure Adjustments	(9,827)	(550)	
Total Reductions	<u>4,592,932</u>	<u>1,014,477</u>	<u>73,750</u>
FUND BALANCE: June 30, 1986	\$ <u>-0-</u>	\$ <u>1,369</u>	\$ <u>58,580</u>

This schedule was prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 20.

FISCAL YEAR 198

GENERAL FUND

Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

SPECIAL REVENUE

Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

FISCAL YEAR 198

GENERAL FUND

Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

SPECIAL REVENUE

Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

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GOVERNOR'S OFFICE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>Reimbursements</u>	<u>Miscellaneous</u>	<u>Sale of Documents & Merchandise</u>	<u>Grants, Gifts, & Donations</u>	<u>Federal Assistance</u>	<u>Total</u>
<u>FISCAL YEAR 1985-86</u>						
<u>GENERAL FUND</u>						
Estimated Revenue	\$ 21,000	\$ 100				\$ 21,100
Actual Revenue	<u>0</u>	<u>184</u>				<u>184</u>
Collections Over						
(Under) Estimate	\$ <u>(21,000)</u>	\$ <u>84</u>				\$ <u>(20,916)</u>
<u>SPECIAL REVENUE FUND</u>						
Estimated Revenue		\$1,000	\$ 212,220	\$ 424,000	\$ 567,442	\$1,204,662
Actual Revenue		<u>2,358</u>	<u>18,926</u>	<u>158,504</u>	<u>388,274</u>	<u>568,062</u>
Collections Over						
(Under) Estimate		<u>\$1,358</u>	<u>\$(193,294)</u>	<u>\$(265,496)</u>	<u>\$(179,168)</u>	<u>\$(636,600)</u>
<u>FISCAL YEAR 1984-85</u>						
<u>GENERAL FUND</u>						
Estimated Revenue	\$ 14,000	\$ 100				\$ 14,100
Actual Revenue	<u>0</u>	<u>1,972</u>				<u>1,972</u>
Collections Over						
(Under) Estimate	\$ <u>(14,000)</u>	\$ <u>1,872</u>				\$ <u>(12,128)</u>
<u>SPECIAL REVENUE FUND</u>						
Estimated Revenue				\$ 126,000	\$ 462,000	\$ 588,000
Actual Revenue				<u>72,330</u>	<u>374,822</u>	<u>447,152</u>
Collections Over						
(Under) Estimate				\$ <u>(53,670)</u>	\$ <u>(87,178)</u>	\$ <u>(140,848)</u>

This schedule was prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 20.

PERSONAL SERVICE

Salaries
Employee Bene
Total

OPERATING EXPENSE

Contracted Se
Supplies & Ma
Communication
Travel
Rent
Utilities
Repair & Main
Other Expense
Total

EQUIPMENT AND I
ASSETS

Equipment
Intangible As
Total

TOTAL PROGRAM E

GENERAL FUND

Budgeted
Actual
Unspent Budget

SPECIAL REVENUE

Budgeted
Actual
Unspent Budget

INTERNAL SERVICE

Budgeted
Actual
Unspent Budget

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GOVERNOR'S OFFICE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Executive Office	Mansion Maintenance	Air Transportation	Office of Budget & Pgm Planning	Northwest Regional Power Act	Lt. Governor	Citizens Advocate Office	Mental Disabilities Bd Visitors	Statehood Centennial Office	Total
PERSONAL SERVICES										
Salaries	\$ 648,511	\$27,346	\$25,762	\$450,599	\$206,987	\$161,026	\$29,015	\$ 65,377	\$ 22,062	\$1,636,685
Employee Benefits	110,101	6,157	6,172	72,905	30,548	30,224	3,559	14,467	4,496	278,629
Total	<u>758,612</u>	<u>33,503</u>	<u>31,934</u>	<u>523,504</u>	<u>237,535</u>	<u>191,250</u>	<u>32,574</u>	<u>79,844</u>	<u>26,558</u>	<u>1,915,314</u>
OPERATING EXPENSES										
Contracted Services	204,899	1,878	6,485	129,553	11,847	4,928		10,897	9,901	380,388
Supplies & Materials	10,200	12,186	19,361	4,752	2,372	1,661		1,576	811	52,919
Communications	50,661	2,627	1,297	9,984	9,329	9,282	16,064	4,533	2,775	106,552
Travel	58,325		4,013	2,426	55,430	11,506		17,039	3,274	152,013
Rent	40,748	214		19,559	8,565	5,289		1,346		75,721
Utilities		4,559								4,559
Repair & Maintenance	10,274	171	27,837	5,894	596	2,166		719	184	47,841
Other Expenses	77,444	210	16	4,439	2,363	2,015		1,232	2,344	90,063
Total	<u>452,551</u>	<u>21,845</u>	<u>59,009</u>	<u>176,607</u>	<u>90,502</u>	<u>36,847</u>	<u>16,064</u>	<u>37,342</u>	<u>19,289</u>	<u>910,056</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	4,653	170	199	34,476	1,611			33		41,142
Intangible Assets	170			4,692	200					5,062
Total	<u>4,823</u>	<u>170</u>	<u>199</u>	<u>39,168</u>	<u>1,811</u>			<u>33</u>		<u>46,204</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,215,986</u>	<u>\$55,518</u>	<u>\$91,141</u>	<u>\$739,279</u>	<u>\$329,848</u>	<u>\$228,097</u>	<u>\$48,638</u>	<u>\$117,219</u>	<u>\$ 45,847</u>	<u>\$2,871,574</u>
GENERAL FUND										
Budgeted	\$1,152,301	\$58,874	\$94,928	\$678,412		\$231,557	\$48,939	\$126,435		\$2,391,446
Actual	1,023,806	55,518	91,142	665,529		228,097	48,638	117,219		2,229,949
Unspent Budget Authority	<u>\$ 128,495</u>	<u>\$ 3,356</u>	<u>\$ 3,786</u>	<u>\$ 12,883</u>		<u>\$ 3,460</u>	<u>\$ 301</u>	<u>\$ 9,216</u>		<u>\$ 161,497</u>
SPECIAL REVENUE FUND										
Budgeted	\$ 551,673				\$437,442				\$238,220	\$1,227,335
Actual	192,180				329,848				45,847	567,875
Unspent Budget Authority	<u>\$ 359,493</u>				<u>\$107,594</u>				<u>\$192,373</u>	<u>\$ 659,460</u>
INTERNAL SERVICE FUNDS										
Budgeted				\$ 73,750						\$ 73,750
Actual				73,750						73,750
Unspent Budget Authority				<u>\$ 0</u>						<u>\$ 0</u>

This schedule was prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 20.

PERSONAL SERVICES

Salaries

Employee Benefits

Total

OPERATING EXPENSES

Contracted Services

Supplies & Materials

Communications

Travel

Rent

Utilities

Repair & Maintenance

Other Expenses

Total

EQUIPMENT AND INVENTORY

ASSETS

Equipment

Total

TOTAL PROGRAM EXPENSES

GENERAL FUND

Budgeted

Actual

Unspent Budget

SPECIAL REVENUE FUNDS

Budgeted

Actual

Unspent Budget

This schedule was prepared in accordance with the requirements of the
schedules on page 10

GOVERNOR'S OFFICE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Executive Office	Mansion Maintenance	Air Transportation	Office of Budget & Pgm Planning	Northwest Regional Power Act	Lt. Governor	Citizens Advocate Office	Mental Disabilities Bd Visitors	Total
PERSONAL SERVICES									
Salaries	\$ 574,748	\$31,471	\$24,937	\$ 510,368	\$170,137	\$156,778	\$28,435	\$36,288	\$1,533,162
Employee Benefits	93,355	7,343	6,015	82,788	23,160	29,373	3,435	7,578	253,047
Total	<u>668,103</u>	<u>38,814</u>	<u>30,952</u>	<u>593,156</u>	<u>193,297</u>	<u>186,151</u>	<u>31,870</u>	<u>43,866</u>	<u>1,786,209</u>
OPERATING EXPENSES									
Contracted Services	273,834	4,813	7,124	81,819	40,516	16,022		11,916	436,044
Supplies & Materials	12,812	13,149	20,737	2,424	3,885	2,582	219	1,290	57,098
Communications	49,241	1,554	1,417	10,296	9,219	11,287	16,592	3,686	103,292
Travel	56,204		4,438	2,599	55,949	15,447		12,569	147,206
Rent	43,757	680	115	15,954	8,163	5,132		732	74,533
Utilities		3,738							3,738
Repair & Maintenance	12,644	1,909	20,563	7,401	564	2,082		288	45,451
Other Expenses	79,575	442	70	2,725	1,721	3,268	216	1,604	89,621
Total	<u>528,067</u>	<u>26,285</u>	<u>54,464</u>	<u>123,218</u>	<u>120,017</u>	<u>55,820</u>	<u>17,027</u>	<u>32,085</u>	<u>956,983</u>
EQUIPMENT AND INTANGIBLE ASSETS									
Equipment	29,422	3,445		33,126	5,281	385		5,407	77,066
Total	<u>29,422</u>	<u>3,445</u>		<u>33,126</u>	<u>5,281</u>	<u>385</u>		<u>5,407</u>	<u>77,066</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,225,592</u>	<u>\$68,544</u>	<u>\$85,416</u>	<u>\$ 749,500</u>	<u>\$318,595</u>	<u>\$242,356</u>	<u>\$48,897</u>	<u>\$81,358</u>	<u>\$2,820,258</u>
GENERAL FUND									
Budgeted	\$1,227,961	\$71,610	\$86,904	\$1,280,631		\$238,110	\$61,105	\$81,428	\$3,047,749
Actual	1,100,134	68,544	85,416	749,500		237,988	48,897	81,358	2,371,837
Unspent Budget Authority	<u>\$ 127,827</u>	<u>\$ 3,066</u>	<u>\$ 1,488</u>	<u>\$ 531,131</u>		<u>\$ 122</u>	<u>\$12,208</u>	<u>\$ 70</u>	<u>\$ 675,912</u>
SPECIAL REVENUE FUND									
Budgeted	\$ 178,500				\$412,000	\$ 5,000			\$ 595,500
Actual	125,458				318,595	4,368			448,421
Unspent Budget Authority	<u>\$ 53,042</u>				<u>\$ 93,405</u>	<u>\$ 632</u>			<u>\$ 147,079</u>

This schedule was prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 20.

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR
SCHEDULE OF AGENCY FUND - ADDITIONS AND DEDUCTIONS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

FUND BALANCE: July 1, 1984

\$ -0-

ADDITIONS:

Fiscal Year 1984-85

Deferred Receipts ¹	7,553
Budgeted Receipts	10,970
Budgeted Receipt Abatements ²	(5,238)

Fiscal Year 1985-86

Deferred Receipts	<u>5,238</u>
Total Additions	<u>18,523</u>

DEDUCTIONS:

Fiscal Year 1984-85

Budgeted Disbursements	13,083
Prior Period Disbursements ³	202

Fiscal Year 1985-86

Deferred Receipt Abatements ²	<u>5,238</u>
Total Deductions	<u>18,523</u>

FUND BALANCE: June 30, 1986

\$ -0-

¹The activity recorded in the Agency Fund includes the developmental disabilities study required in Chapter 687 of the 1983 Session Laws. In fiscal year 1983-84, the office deferred receipts of \$7,553 until fiscal year 1984-85.

²The Developmental Disabilities Study was completed during fiscal year 1984-85. The Governor's Office refunded \$5,238 in deferred receipts in equal amounts to the Department of Social and Rehabilitation Services and the Department of Institutions. These departments each provided \$10,000 toward operating costs for the study.

³A disbursement of \$202 recorded in fiscal year 1984-85 involved activity which actually occurred in fiscal year 1983-84.

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR

NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 1985 AND 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Office of the Governor and Lieutenant Governor utilizes the modified accrual basis of accounting for its General and Special Revenue Funds and the full accrual basis for its Internal Service Fund. Both are described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenue in governmental funds may be recognized when the amount is measurable and available to meet expenditures of the current fiscal period. Internal Service Fund revenue may be recognized in the period earned.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Agency - accounts for assets held in trust or as an agent by the office for others. The major item accounted for in this fund is the developmentally disabled study. A legislative appropriation is not required to spend from these funds.

Internal Service - accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the government unit. The office receives and disburses moneys from this fund to pay for the statewide audit.

2. VACATION AND SICK LEAVE

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Office of the Governor and Lieutenant Governor. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1986, the office had a liability of \$137,230 for vacation leave and \$66,478 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office contributed \$65,687 and \$75,072 to the plan in fiscal years 1984-85 and 1985-86, respectively.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency basis the

General Fund beginning and ending fund balance will always be zero.

5. GENERAL FIXED ASSETS

The office records assets on the state's Property and Accountability Management System (PAMS). The general fixed asset equipment balance at June 30, 1986, is \$466,849. This amount includes \$2,698 for equipment added before June 30, 1984, but not recorded at that time. The office incurred \$77,065 and \$41,109 worth of equipment expenditures in fiscal years 1984-85 and 1985-86. Expenditures for items over \$200 should have been recorded on the equipment records but were not.

6. BUDGET INFORMATION

The office utilizes a fixed basis of budgeting. The Legislature appropriates specific dollar amounts for each fiscal year in a biennium. Appropriations control the financial operations of the office each fiscal year. At fiscal year-end, appropriations (with the exception of continuing appropriations and biennial appropriations) revert to the fund of original appropriation. The reverted appropriation balance may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the Legislature but available from sources other than General Fund. Budget amendments are approved by the Governor's Office of Budget and Program Planning.

7. INTERENTITY LOAN

The Governor's Office received a \$25,000 loan for the Montana Statehood Centennial Office from the Junk Vehicle Disposal Account at the Department of Health and Environmental Sciences during fiscal year 1985-86. In August 1986 the office received an additional interentity loan of \$38,000 from the Crime Victims Fund.

Section 7 of House Bill 873, 1985 Legislature, authorizes loans up to \$119,110 from each of these sources. The statute requires repayment of the loans by June 30, 1987, and designates revenue from sales of centennial acres and centennial license plates as the source of repayment.

AGENCY RESPONSE

State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

TED SCHWINDEN
GOVERNOR

March 11, 1987

RECEIVED

MAR 11 1987

**MONTANA LEGISLATIVE
AUDITOR**

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Following are our responses to the audit of the Offices of the Governor and the Lieutenant Governor for the Fiscal Years 1985 and 1986.

Recommendation #1: We recommend the Office recover indirect costs of federally supported programs in accordance with state law.

Response: We concur with the recommendation. The Northwest Power Planning Council has received preliminary approval for an overhead rate with their federal funding agency. Upon final approval, the Council will deposit \$13,530 and \$16,628 to the General Fund for Fiscal Years 1985 and 1986, respectively. In addition, the Council is negotiating an indirect cost rate for the current fiscal year. Based on services provided, the Council will negotiate indirect cost rates annually.

Recommendation #2: We recommend the Office adopt cash management procedures to eliminate negative cash balances for federal grants.

Response: We concur with the recommendation.

The Northwest Power Council has already implemented new procedures to improve internal monitoring of income and expenditures. In addition, a cash reserve has been provided for unexpected contingencies.

These actions should eliminate the possibility of future negative cash balances.

Recommendation #3: We recommend the Office correct negative accounting entity cash balances as required by state law.

Response: We concur with the recommendation. Legislation has been submitted in the 1987 legislature to allow for direct deposit to the general fund of charges against bond costs of issuance. This method of collection will prevent a recurrence of a negative balance in future bienniums. The negative balance in Fiscal Year 1987 will be eliminated when payments are received from the Department of Commerce.

Mr. Scott Seacat
March 13, 1987
Page Two

Recommendation #4: We recommend the Office ensure cash control procedures in use comply with state policy.

Response: We concur with the recommendation. New cash control procedures will be in place by June 1, 1987.

Recommendation #5: We recommend the Office: A.) Comply with state personnel laws. B.) Classify personal services and contracted services in accordance with state law.

Response: We concur with the recommendation.

Recommendation #6: We recommend the Office use non-general fund moneys wherever possible before using general fund moneys.

Response: We concur with the recommendation. Audit costs have been charged to the special revenue funds at the level appropriated by the 49th Legislature.

Recommendation #7: We recommend the Office record centennial in-kind contributions on its accounting records.

Response: We concur with the recommendation. This has been done effective February, 1987.

Recommendation #8: We recommend the Office: A.) Implement controls to ensure equipment is properly recorded in its accounting records. B.) Implement a physical inventory plan in accordance with state policy. C.) Ensure each equipment item valued over \$200 is assigned a unique property tag.

Response: We concur with the recommendation. A physical inventory is currently 90% complete. Accounting records will be updated by May 31, 1987. This inventory will be updated in subsequent years at fiscal year end. Unique property numbers are currently assigned to each accountable item regardless of cost.

We thank the Legislative Auditor and his staff for the recommendations and for their courtesy during the course of this audit.

Sincerely,



Teresa Olcott Cohea
Executive Assistant

